

Message Text

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PAGE 01 ROME 01221 231856Z

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C O N F I D E N T I A L ROME 1221

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJ: OSSOLA COMMENTS ON EVENTUAL RE-ENTRY OF BANK OF ITALY
INTO EXCHANGE MARKET

REF: (A) ROME 1120; (B) EC BRUSSELS 0678

SUMMARY: BANK OF ITALY DIRECTOR GENERAL OSSOLA TOLD
TREASATT JANUARY 23 THAT, IN HIS OPINION, RE-ENTRY OF
BANK OF ITALY INTO EXCHANGE MARKET SHOULD NOT OCCUR UNTIL
POLITICAL CRISIS IS OVER AND ITALY HAS AN ECONOMIC PROGRAM.
CONSEQUENTLY, THERE IS NO URGENT NEED FOR LARGE FINANCIAL
ASSISTANCE. END SUMMARY.

1. RE-ENTRY ON BOI INTO EXCHANGE MARKET. WITH REGARD TO
EVENTUAL RE-ENTRY OF BANK OF ITALY INTO EXCHANGE MARKET,
OSSOLA BELIEVES THAT POLITICAL CRISIS MUST HAVE BEEN
RSOLVED BUT THAT THIS ALONE MAY NOT BE SUFFICIENT
PRE-CONDITION. IN ORDER FOR BANK TO BE ABLE TO INTERVENE
IN THE EXCHANGE MARKET ONCE AGAIN, IT MUST HAVE ADEQUATE
FINANCIAL RESOURCES AND AN ECONOMIC PROGRAM WHICH IS
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PAGE 02 ROME 01221 231856Z

CREDIBLE. APPARENTLY THIS ECONOMIC PROGRAM WOULD

INCLUDE FINANCIAL COMMITMENTS MADE TO IMF UNDER PROPOSED NEW STANDBY AND SOME KIND OF OTHER ECONOMIC MEASURES WHICH WOULD BE CONTAINED IN PROGRAM OF NEW GOVERNMENT. ONE POLITICAL CRISIS WAS RESOLVED, HE SAID, ANNOUNCEMENT OF FINANCIAL ASSISTANCE MIGHT BE HELPFUL. BUT, IN ANY CASE, BOI SHOULD ONLY RESUME INTERVENING IN THE MARKET ON A LIMITED SCALE.

2. STATUS OF POSSIBLE FINANCIAL ASSISTANCE. OSSOLA RECONFIRMS THAT \$250 MILLION HAD BEEN RECEIVED FROM NEW YORK FED UNDER SWAP (REF A) AGREEMENT BUT THAT SWAP WOULD HAVE TO BE REPAID WHEN NEW IMF DRAWING IS MADE.

3. INITIAL DISCUSSIONS WITH IMF STAFF THIS WEEK WILL RESULT IN PREPARATION OF DRAFT LETTER OF INTENT OR DRAFT MEMO WHICH ITALIAN DELEGATION WILL BRING BACK TO ROME FOR FURTHER STUDY. IN VIEW OF PROBABLE DELAY IN RESUMPTION OF EXCHANGE MARKET INTERVENTION, OSSOLA DID NOT BELIEVE THAT FINAL CONCLUSION OF AGREEMENT WITH IMF WAS A PRESSING MATTER.

4. WITH REGARD TO BUNDESBANK GOLD LOAN, BOI HAS ASKED EMMINGER TO RAISE POSSIBILITY OF RESTORING LOAN TO ORIGINAL \$2 MILLION AMOUNT BY NEW \$500 MILLION DRAWING. BUNDESBANK BOARD SUPPOSEDLY CONSIDERED QUESTION ON JANUARY 22, BUT NO DECISION AVAILABLE YET. OSSOLA THOUGHT THAT DRAWING OF SUCH A LOAN MIGHT BE TIMED TO COINCIDE WITH EVENTUAL BOI RE-ENTRY INTO MARKET.

5. WHEN ASKED ABOUT POSSIBILITY OF EC JOINT BORROWING OF \$1 BILLION TO HELP ITALY (REF B), OSSOLA SAID THAT HE THOUGHT THAT THIS IDEA MIGHT BE WISHFUL THINKING ON PART OF EC COMMISSION (APPARENTLY BECAUSE MARKET WOULD NOT ABSORB SUCH A LOAN OR BECAUSE ITALY'S EC PARTNERS WOULD NOT BE WILLING OR ABLE TO APPROVE SUCH ASSISTANCE). VOLPE

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